

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Caspian</b>		County <b>Iron</b>
Audit Date <b>6/30/06</b>	Opinion Date <b>7/31/06</b>	Date Accountant Report Submitted to State: <b>8/7/06</b>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

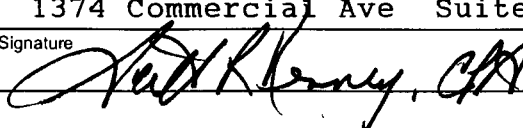
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<b>X</b>		
Reports on individual federal financial assistance programs (program audits).			<b>X</b>
Single Audit Reports (ASLGU).			<b>X</b>

Certified Public Accountant (Firm Name) <b>Scott R. Kenney, CPA</b>			
Street Address <b>1374 Commercial Ave Suite 1</b>		City <b>Crystal Falls</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49920</b>	
		Date	

**CITY OF CASPIAN**  
**AUDITED FINANCIAL STATEMENTS**  
**IRON COUNTY, MICHIGAN**

**Fiscal Year Ended June 30, 2006**

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# SCOTT R. KENNEY

*Certified Public Accountant*

1374 Commercial Ave., Suite #1  
Crystal Falls, Michigan 49920  
(906) 875-4393 Fax: (906) 875-3879

## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
City of Caspian  
Caspian, Michigan 49915

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Caspian, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Caspian, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2006.

The management's discussion and analysis and budgetary comparison information on pages 5 through 9 and 33 through 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Member  
American Institute of Certified Public Accountants  
Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Caspian, Michigan's basic financial statements. The introductory section, statistical tables and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

  
Certified Public Accountant

July 31, 2006

CITY OF CASPIAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net assets increased 2.4% from a year ago - increasing from \$2.151 million to \$2.203 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a decrease of approximately \$30,000 during the year (6.5% decrease). This is attributed to an increase in employee benefit costs and significant capital spending on equipment and as required matching funds on various grants. The business-type activities experienced an \$82,000 increase in net assets, primarily due to increased sewer charges and reduced project costs incurred to comply with compliance directives. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current Assets	\$ 426	\$ 544	\$ 203	\$ 136	\$ 629	\$ 680
Noncurrent Assets	<u>444</u>	<u>316</u>	<u>2,683</u>	<u>2,619</u>	<u>3,127</u>	<u>2,935</u>
Total Assets	\$ 870	\$ 860	\$ 2,886	\$ 2,755	\$ 3,756	\$ 3,615
Long-Term Debt Outstanding	\$ 368	\$ 353	\$ 1,012	\$ 1,047	\$ 1,380	\$ 1,400
Other Liabilities	<u>72</u>	<u>47</u>	<u>101</u>	<u>17</u>	<u>173</u>	<u>64</u>
Total Liabilities	<u>\$ 440</u>	<u>\$ 400</u>	<u>\$ 1,113</u>	<u>\$ 1,064</u>	<u>\$ 1,553</u>	<u>\$ 1,464</u>
Net Assets						
Invested in Capital Assets—Net of Debt	\$ 415	\$ 316	\$ 1,600	\$ 1,526	\$ 2,015	\$ 1,842
Restricted	29	101	70	46	99	147
Unrestricted (Deficit)	<u>(14)</u>	<u>43</u>	<u>103</u>	<u>119</u>	<u>89</u>	<u>162</u>
Total Net Assets	\$ 430	\$ 460	\$ 1,773	\$ 1,691	\$ 2,203	\$ 2,151

CITY OF CASPIAN  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2006

Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$56,000 for the governmental activities. This decrease puts unrestricted net assets in a deficit position and is a decrease of approximately 132.6%. The current level of unrestricted net assets for our governmental activities stands at a \$14,000 deficit and will be closely monitored by management and the City Council in the forthcoming year.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Program Revenues</b>						
Charges for Services	\$ 82	\$ 76	\$ 306	\$ 286	\$ 388	\$ 362
Operating Grants and Contributions	131	87	0	3	131	90
Capital Grants and Contributions	0	60	128	0	128	60
<b>General Revenues</b>						
Property Taxes	\$ 258	\$ 242	\$ 0	\$ 0	\$ 258	\$ 242
State-Shared Revenues	163	307	0	0	163	307
Unrestricted Investment Earnings	29	8	2	2	31	10
Reimbursements	1	3	0	0	1	3
Sale of land	4	2	0	0	4	2
Transfers and Other Revenue	<u>9</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9</u>	<u>0</u>
<b>Total Revenues</b>	<b>\$ 677</b>	<b>\$ 785</b>	<b>\$ 436</b>	<b>\$ 291</b>	<b>\$1,113</b>	<b>\$1,076</b>
<b>Program Expenses</b>						
General Government	\$ 127	\$ 133	\$ 0	\$ 0	\$ 127	\$ 133
Public Safety	92	90	0	0	92	90
Public Works	300	352	0	0	300	352
Employee benefits	138	117	0	0	138	117
Insurance	24	23	0	0	24	23
Recreation & Culture	20	9	0	0	20	9
Interest on Long-Term Debt	6	6	0	0	6	6
Water & Sewer	<u>0</u>	<u>0</u>	<u>354</u>	<u>328</u>	<u>354</u>	<u>328</u>
<b>Total Expenses</b>	<b>\$ 707</b>	<b>\$ 730</b>	<b>\$ 354</b>	<b>\$ 383</b>	<b>\$ 1,061</b>	<b>\$1,058</b>
<b>Change in Net Assets</b>	<b>\$ ( 30)</b>	<b>\$ 55</b>	<b>\$ 82</b>	<b>\$ ( 37)</b>	<b>\$ 52</b>	<b>\$ 18</b>

CITY OF CASPIAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

The City's net assets continue to remain healthy although the unrestricted portion is of concern. The City has obtained several grants during the past year that require matching City money and the payment or obligations of the matching funds on these and future grants will be watched closely.

Governmental Activities

The City's total governmental revenues decreased by approximately \$108,000 due to the receipt of a grant for equipment of \$60,000 received in 2004-2005 fiscal year and expended in the 2005-2006 fiscal year. In addition, the City did not receive any "annual snow" fund in the Major Street Fund in 2005-2006 resulting in less gross revenue.

Cash expenditures increased by more than \$100,000 during the year. This was due to various cost saving measures but offset by paying grant matches and the acquisition of more than \$128,000 in capital equipment and property. Of that capital amount, \$60,000 was used to acquire a Zamboni machine for the ice arena.

Business-Type Activities

The City's business-type activities consist of the Water and Sewer Funds. The City provides water to residents, which comes from the City's own water system. The City also provides sewage treatment to residents, through the West Iron County Sewage Authority. In 2005-2006 year, the City increased the base sewer charge to its customers in addition to adopting a rate increase schedule to be used in the current and future periods. The Water Fund revenues remained relatively stagnant with the expenses in the Water Fund increased. The expense increase is primarily due to repairs to recondition the water tank and higher spending on engineering costs. This resulted in a lowering of the net operating loss by approximately \$27,000. The Sewer Fund expenses decreased by more than \$17,000. This decrease can be attributed to less spending to comply with the Department of Environmental Quality consent order. This increased revenue and decreased spending resulted in a net operating income of nearly \$25,000 after experiencing net operating loss in the prior years. Operations of both utilities will be closely monitored in the forthcoming year and rates will be adjusted as necessary.

The City's Funds

Analysis of the City's major funds begins on page 12, following the entity-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a special property tax millage. The City's major funds for 2005 include the General Fund, Major Street Fund, Local Street Fund, Tax Incremental Financing Fund, Water Fund and Sewer Fund.



CITY OF CASPIAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

The General Fund pays for most of the City's governmental services. The most significant are general maintenance of city property and building, maintaining the City's equipment, police and fire services and general administration. These services are primarily funded from property taxes assessed to the residents of the City and revenues shared with the State of Michigan.

General Fund Budgetary Highlights

Over the course of the year, the City Council did amend the budget for various expenditures and projects. The most significant variations during the 2005-2006 year occurred with an increase in property tax revenues and various grant receipts and expenditures. Both revenues and expenditures exceeded budgeted amounts in various areas as outlined in the footnotes to the financial statements.

Capital Asset and Debt Administration

At the end of 2005-2006, the City had more than \$3,100,000 invested in a broad range of capital assets, including snow removal equipment, police and fire equipment, water and sewer systems. In addition, the City has invested significantly in roads and buildings within the City. The cost value of the roads and buildings acquired prior to July 1, 2003, are not required to be reported in the City's financial statements under accounting principles generally accepted in the United States of America. Consequently, the cost of the roads and buildings acquired prior to the 2003-2004 fiscal year are not included in these financial statements.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2005-2006 calls for a freeze on property tax rates. This can be accomplished because of the controls that are being placed on governmental fund expenditures. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result of this is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions.

As discussed above, the sewer rates will be increased in 2005-2006 to maintain adequate cash flows within the fund. The City will closely monitor the rates for the user based services provided by the City and adjust the rates as necessary to provide adequate cash flows and profit.

CITY OF CASPIAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

Contacting the City's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the manager's office.

**CITY OF CASPIAN**  
**GOVERNMENT WIDE STATEMENT OF NET ASSETS**  
June 30, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and equivalents	\$ 297,571	\$ 113,695	\$ 411,266
Receivables - net	<u>128,228</u>	<u>89,977</u>	<u>218,205</u>
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 425,799</b>	<b>\$ 203,672</b>	<b>\$ 629,471</b>
<b>RESTRICTED ASSETS - Cash and equivalents</b>	<b>\$ 29,208</b>	<b>\$ 88,363</b>	<b>\$ 117,571</b>
<b>NON-CURRENT ASSETS</b>			
Property and equipment, net of depreciation	\$ <u>414,716</u>	\$ <u>2,594,410</u>	\$ <u>3,009,126</u>
<b>TOTAL ASSETS</b>	<b>\$ 869,723</b>	<b>\$ 2,886,445</b>	<b>\$ 3,756,168</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 43,192	\$ 81,022	\$ 124,214
Accrued and other liabilities	24,701	19,882	44,583
Current part of non-current liabilities	<u>4,459</u>	<u>0</u>	<u>4,459</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 72,352</b>	<b>\$ 100,904</b>	<b>\$ 173,256</b>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>	<b>\$ 0</b>	<b>\$ 18,000</b>	<b>\$ 18,000</b>
<b>NON-CURRENT LIABILITIES</b>			
Compensated absences	\$ 34,805	\$ 0	\$ 34,805
Loan payable	97,013	0	97,013
Revenue bonds payable	0	994,000	994,000
Unfunded accrued actuarial pension liability	<u>235,810</u>	<u>0</u>	<u>235,810</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>\$ 367,628</b>	<b>\$ 994,000</b>	<b>\$ 1,361,628</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 439,980</b>	<b>\$ 1,112,904</b>	<b>\$ 1,552,884</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 414,716	\$ 1,600,410	\$ 2,015,126
Restricted for			
Capital projects	29,208	0	29,208
Debt service	0	70,363	70,363
Unrestricted	<u>(14,181)</u>	<u>102,768</u>	<u>88,587</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>429,743</u></b>	<b>\$ <u>1,773,541</u></b>	<b>\$ <u>2,203,284</u></b>

The Notes to Financial Statements are an integral part of this statement.

**CITY OF CASPIAN**  
**GOVERNMENT WIDE STATEMENT OF ACTIVITIES**  
Year ended June 30, 2006

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
Governmental Activities						
General government	\$ 127,171	\$ 0	\$ 0	\$ 0	\$ (127,171)	\$ (127,171)
Public safety	92,425	0	0	0	(92,425)	(92,425)
Public works	300,253	82,000	130,751	0	(87,502)	(87,502)
Recreation and culture	19,462	0	0	0	(19,462)	(19,462)
Employee benefits	137,764	0	0	0	(137,764)	(137,764)
Insurance	24,249	0	0	0	(24,249)	(24,249)
Interest on long-term debt	6,050	0	0	0	(6,050)	(6,050)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 707,374</b>	<b>\$ 82,000</b>	<b>\$ 130,751</b>	<b>\$ 0</b>	<b>\$ (494,623)</b>	<b>\$ (494,623)</b>
Business-Type Activities						
Water	\$ 224,217	\$ 151,260	\$ 0	\$ 0	\$ (72,957)	\$ (72,957)
Sewer	130,259	155,180	0	128,188	153,109	153,109
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ 354,476</b>	<b>\$ 306,440</b>	<b>\$ 0</b>	<b>\$ 128,188</b>	<b>\$ 80,152</b>	<b>\$ 80,152</b>
<b>TOTAL GOVERNMENT</b>	<b>\$ 1,061,850</b>	<b>\$ 388,440</b>	<b>\$ 130,751</b>	<b>\$ 128,188</b>	<b>\$ (494,623)</b>	<b>\$ (414,471)</b>
<b>GENERAL REVENUES</b>						
Property taxes				\$ 258,137	\$ 258,137	\$ 258,137
State shared revenues and grants				162,921	0	162,921
Unrestricted investments earnings				28,882	2,116	30,998
Reimbursements				1,371	0	1,371
Other				9,695	0	9,695
<b>SPECIAL ITEM - Sale of land</b>				<b>3,500</b>	<b>0</b>	<b>3,500</b>
<b>TOTAL GENERAL REVENUES AND SPECIAL ITEMS</b>				<b>\$ 464,506</b>	<b>\$ 2,116</b>	<b>\$ 466,622</b>
<b>CHANGE IN NET ASSETS</b>						
Net assets - beginning				\$ (30,117)	\$ 82,268	\$ 52,151
				459,860	1,691,273	2,151,133
<b>NET ASSETS - ENDING</b>				<b>\$ 429,743</b>	<b>\$ 1,773,541</b>	<b>\$ 2,203,284</b>

The Notes to Financial Statements are an integral part of this statement.

**CITY OF CASPIAN**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**COMBINED BALANCE SHEET**  
June 30, 2006

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TAX INCREMENTAL FINANCING FUND	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>					
Cash and equivalents	\$ 190,282	\$ 15,748	\$ 10,716	\$ 110,033	\$ 326,779
Taxes receivable - net	23,600	0	0	0	23,600
Accounts receivable	9,950	0	0	0	9,950
Due from other funds	20,326	0	0	0	20,326
Due from other governmental units	<u>46,874</u>	<u>13,072</u>	<u>5,240</u>	<u>0</u>	<u>65,186</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>291,032</u></b>	<b>\$ <u>28,820</u></b>	<b>\$ <u>15,956</u></b>	<b>\$ <u>110,033</u></b>	<b>\$ <u>445,841</u></b>
<b>LIABILITIES</b>					
Accounts payable	\$ 39,277	\$ 3,068	\$ 0	\$ 847	\$ 43,192
Accrued payroll	3,181	78	42	0	3,301
Due to other funds	0	0	0	19,989	19,989
Due to other governmental units	<u>1,411</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,411</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 43,869</b>	<b>\$ 3,146</b>	<b>\$ 42</b>	<b>\$ 20,836</b>	<b>\$ 67,893</b>
<b>FUND BALANCES</b>					
Reserved for					
Capital projects	\$ 29,208	\$ 0	\$ 0	\$ 0	\$ 29,208
Unreserved	<u>217,955</u>	<u>25,674</u>	<u>15,914</u>	<u>89,197</u>	<u>348,740</u>
<b>TOTAL FUND EQUITY</b>	<b>\$ <u>247,163</u></b>	<b>\$ <u>25,674</u></b>	<b>\$ <u>15,914</u></b>	<b>\$ <u>89,197</u></b>	<b>\$ <u>377,948</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>291,032</u></b>	<b>\$ <u>28,820</u></b>	<b>\$ <u>15,956</u></b>	<b>\$ <u>110,033</u></b>	<b>\$ <u>445,841</u></b>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN  
RECONCILIATION OF BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
June 30, 2006

Total fund balance - total governmental funds	\$ 377,948
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Long term accounts receivable - Caspian-Gaastra Fire Department	9,166
Capital assets used in governmental activities are not financial resources and are not reported in the funds	414,716
Long term liabilities:	
Loan not due and payable within the current period and not reported in the funds	(101,471)
Accumulated employee vacation and personal pay not used in current period	(34,805)
Unfunded accrued actuarial pension liability not payable in the current period	<u>(235,810)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>429,744</u></u>

**CITY OF CASPIAN**  
**GOVERNMENTAL FUNDS STATEMENT OF REVENUE,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**Year ended June 30, 2006**

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TAX INCREMENTAL FINANCING FUND	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>					
Property taxes	\$ 194,365	\$ 0	\$ 0	\$ 63,772	\$ 258,137
State shared revenues and grants	162,921	79,734	51,017	0	293,672
Fines and forfeitures	125	0	0	0	125
Charges for services	82,000	0	0	0	82,000
Interest and rentals	77,326	185	90	88	77,689
Sale of property	3,500	0	0	0	3,500
Reimbursements	1,371	0	0	0	1,371
Other	9,570	0	0	0	9,570
<b>TOTAL REVENUES</b>	<b>\$ 531,178</b>	<b>\$ 79,919</b>	<b>\$ 51,107</b>	<b>\$ 63,860</b>	<b>\$ 726,064</b>
<b>EXPENDITURES</b>					
<b>Current</b>					
General government	\$ 121,141	\$ 0	\$ 0	\$ 0	\$ 121,141
Public safety	75,979	0	0	0	75,979
Public works	194,617	76,120	50,655	12,278	333,670
Recreation	14,414	0	0	0	14,414
Employee benefits	114,387	0	0	0	114,387
Insurance	24,249	0	0	0	24,249
Capital outlay	139,267	0	0	2,300	141,567
Debt service	0	0	0	10,257	10,257
<b>TOTAL EXPENDITURES</b>	<b>\$ 684,053</b>	<b>\$ 76,120</b>	<b>\$ 50,655</b>	<b>\$ 24,835</b>	<b>\$ 835,663</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ (152,875)</b>	<b>\$ 3,799</b>	<b>\$ 452</b>	<b>\$ 39,025</b>	<b>\$ (109,599)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Transfers (out)	0	0	0	0	0
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>\$ (152,875)</b>	<b>\$ 3,799</b>	<b>\$ 452</b>	<b>\$ 39,025</b>	<b>\$ (109,599)</b>
Fund balance - beginning	400,038	21,875	15,462	50,172	487,547
<b>FUND BALANCE - JUNE 30</b>	<b>\$ 247,163</b>	<b>\$ 25,674</b>	<b>\$ 15,914</b>	<b>\$ 89,197</b>	<b>\$ 377,948</b>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN  
RECONCILIATION OF STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
Year ended June 30, 2006

Net change in fund balance - total governmental funds	\$ (109,599)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation.	98,653
Repayments of loan principal is an expenditure in the governmental funds but not in the Statement of Activities (where it reduces long-term debt).	4,207
Increases in accumulated employee vacation and personal pay are recorded when earned in the Statement of Activities.	(2,971)
Increase in unfunded accrued actuarial pension liability not requiring the use of current financial resources	<u>(20,406)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>(30,117)</u></u>



**CITY OF CASPIAN**  
**PROPRIETARY FUNDS STATEMENT OF NET ASSETS**  
June 30, 2006

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and equivalents	\$ 91,090	\$ 22,605	\$ 113,695
Accounts receivable	20,169	19,913	40,082
Due from other governmental units	<u>0</u>	<u>49,895</u>	<u>49,895</u>
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 111,259</b>	<b>\$ 92,413</b>	<b>\$ 203,672</b>
<b>Noncurrent Assets</b>			
Restricted cash and equivalents	\$ 88,363	\$ 0	\$ 88,363
Capital assets, net	<u>2,448,784</u>	<u>145,626</u>	<u>2,594,410</u>
<b>TOTAL NONCURRENT ASSETS</b>	<b>\$ 2,537,147</b>	<b>\$ 145,626</b>	<b>\$ 2,682,773</b>
<b>TOTAL ASSETS</b>	<b>\$ <u>2,648,406</u></b>	<b>\$ <u>238,039</u></b>	<b>\$ <u>2,886,445</u></b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 3,285	\$ 77,737	\$ 81,022
Accrued expenses	<u>19,441</u>	<u>441</u>	<u>19,882</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 22,726</b>	<b>\$ 78,178</b>	<b>\$ 100,904</b>
<b>Noncurrent Liabilities</b>			
Current liabilities payable from restricted assets	\$ 18,000	\$ 0	\$ 18,000
Revenue bonds payable	<u>994,000</u>	<u>0</u>	<u>994,000</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>\$ 1,012,000</b>	<b>\$ 0</b>	<b>\$ 1,012,000</b>
<b>TOTAL LIABILITIES</b>	<b>\$ <u>1,034,726</u></b>	<b>\$ <u>78,178</u></b>	<b>\$ <u>1,112,904</u></b>
<b>NET ASSETS</b>			
Invested in capital assets-net of related debt	\$ 1,454,784	\$ 145,626	\$ 1,600,410
Restricted from debt service	70,363	0	70,363
Unrestricted	<u>88,533</u>	<u>14,235</u>	<u>102,768</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>1,613,680</u></b>	<b>\$ <u>159,861</u></b>	<b>\$ <u>1,773,541</u></b>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN  
**PROPRIETARY FUNDS STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN NET ASSETS**  
Year ended June 30, 2006

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
<b>OPERATING REVENUES</b>			
Metered sales	\$ 149,032	\$ 152,399	\$ 301,431
Water taps and other services	<u>2,228</u>	<u>2,781</u>	<u>5,009</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 151,260</b>	<b>\$ 155,180</b>	<b>\$ 306,440</b>
<b>OPERATING EXPENSES</b>			
Personal services	\$ 28,758	\$ 12,938	\$ 41,696
Employee benefits	23,499	10,665	34,164
Supplies	2,337	2,436	4,773
Purchased services	27,138	101,396	128,534
Equipment rental	1,977	981	2,958
Utilities	6,473	0	6,473
Other	2,745	0	2,745
Depreciation	<u>85,330</u>	<u>1,843</u>	<u>87,173</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 178,257</b>	<b>\$ 130,259</b>	<b>\$ 308,516</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (26,997)</b>	<b>\$ 24,921</b>	<b>\$ (2,076)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest earned	\$ 2,116	\$ 0	\$ 2,116
Contribution in aid of construction - federal grant	0	128,188	128,188
Interest expense	<u>(45,960)</u>	<u>0</u>	<u>(45,960)</u>
<b>TOTAL NONOPERATING REVENUE (EXPENSE)</b>	<b>\$ (43,844)</b>	<b>\$ 128,188</b>	<b>\$ 84,344</b>
<b>NET INCOME (LOSS)</b>	<b>\$ (70,841)</b>	<b>\$ 153,109</b>	<b>\$ 82,268</b>
Total net assets - beginning	<u>1,684,521</u>	<u>6,752</u>	<u>1,691,273</u>
<b>TOTAL NET ASSETS - ENDING</b>	<b>\$ 1,613,680</b>	<b>\$ 159,861</b>	<b>\$ 1,773,541</b>

The Notes to Financial Statements are an integral part of this statement.

**CITY OF CASPIAN**  
**PROPRIETARY FUNDS STATEMENT OF CASH FLOW**  
Year ended June 30, 2006

	WATER UTILITY	SEWER UTILITY	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 148,616	\$ 150,352	\$ 298,968
Payments to suppliers	(37,393)	(43,815)	(81,208)
Payments to or on behalf of employees	<u>(52,148)</u>	<u>(23,255)</u>	<u>(75,403)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 59,075</b>	<b>\$ 83,282</b>	<b>\$ 142,357</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal and interest paid on capital debt	\$ (62,260)	\$ 0	\$ (62,260)
Federal grant in aid of construction	0	78,293	78,293
Purchases of capital assets	4,312	(147,469)	(143,157)
Funding of restricted accounts	<u>(7,538)</u>	<u>0</u>	<u>(7,538)</u>
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING</b>	<b>\$ (65,486)</b>	<b>\$ (69,176)</b>	<b>\$ (134,662)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest earned	\$ <u>2,116</u>	\$ <u>0</u>	\$ <u>2,116</u>
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	<b>\$ (4,295)</b>	<b>\$ 14,106</b>	<b>\$ 9,811</b>
Cash and equivalents - beginning	<u>95,385</u>	<u>8,499</u>	<u>103,884</u>
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ <u>91,090</u></b>	<b>\$ <u>22,605</u></b>	<b>\$ <u>113,695</u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ (26,997)	\$ 24,921	\$ (2,076)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation	85,330	1,843	87,173
Change in Assets and Liabilities			
Receivables - net	(2,644)	(4,828)	(7,472)
Accounts payable	3,277	60,998	64,275
Accrued payroll expense	<u>109</u>	<u>348</u>	<u>457</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u>59,075</u></b>	<b>\$ <u>83,282</u></b>	<b>\$ <u>142,357</u></b>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN  
FIDUCIARY FUNDS - STATEMENT OF NET ASSETS  
June 30, 2006

		<u>AGENCY FUND TYPE</u> <u>(Tax Collections)</u>
<b>ASSETS</b>		
Cash and equivalents	\$	233
Due from other funds		0
Due from other governmental units		<u>104</u>
<b>TOTAL ASSETS \$</b>		<u><u>337</u></u>
<b>LIABILITIES</b>		
Due to other funds	\$	336
Due to other governmental units		<u>0</u>
<b>TOTAL LIABILITIES \$</b>		<u><u>336</u></u>

The Notes to Financial Statements are an integral part of this statement.

**CITY OF CASPIAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Caspian (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

**I. Reporting Entity**

The City is governed by an elected five member council (Council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations.

The City does not have any component units that are blended or discretely presented.

**Jointly Governed Organizations—**

**Caspian-Gaastra Fire Authority**

The Cities of Caspian and Gaastra participate jointly in the operation of the Caspian-Gaastra Fire Authority. Each city appoints two board members to the fire authority's governing board with the governing board appointing a fifth member. All of the financial operations of the Authority are recorded in a separate set of financial records and are available at the City of Gaastra offices.

The funding formula approved by the members of the Local Units is based pro rata on each unit's population. The City's contribution to the Fire Authority for the audit period was \$14,623 from its general fund for operations and \$10,257 from its Tax Incremental Financing Fund for debt retirement.

**West Iron County Sewage Authority**

The City is one of five municipalities participating jointly in the Sewage Authority. All of the financial operations of the Authority are recorded in a separate set of financial records and are available at the Sewage Authority Offices.

The funding formula approved by the members of the Local Units is based pro rata on each unit's population. The City's contribution to the Sewage Authority for the audit period was \$ 95,725.

**CITY OF CASPIAN**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2006

**NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**II. Government-Wide and Fund Financial Statements**

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**III. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

CITY OF CASPIAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

**Taxes Receivable—Current Property Taxes**

The City property tax is levied on each July 1<sup>st</sup> on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31<sup>st</sup>.

The City's 2005 ad valorem tax is levied and collectible on July 1, 2005. It is the City's policy to recognize revenue from the current tax levy when the tax is levied for real property and when collected for personal property as the amounts are then "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 taxable valuation of the City totaled \$11.384 million, on which ad valorem taxes levied consisted of 19.5377 mills for the City operating purposes, raising \$169,565 for financing operations. This amount is recognized in the General Fund financial statements as property taxes.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Major Streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Local Streets.

The Tax Incremental Financing Fund accounts for the taxes collected that are restricted for use in the Tax Incremental Financing District and the payment of obligated loans.

The government reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

CITY OF CASPIAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognize the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Bank Deposits and Investments— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

Receivables and Payables— In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "due to/from other funds."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.



**CITY OF CASPIAN**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**IV. Assets, Liabilities, and Net Assets or Equity (Continued)**

**Restricted Assets**— The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

**Capital Assets**— Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The infrastructure assets acquired prior to July 1, 2003, have been excluded from the financial statements in compliance with Governmental Accounting Standards Board Statement No. 34. The value of future acquisitions of infrastructure assets will be capitalized and depreciated.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

**Compensated Absences (Vacation, Personal and Sick Leave)**— It is the government's policy to permit employees to accumulate earned but unused vacation, personal and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amount when employees separate from service with the government. All vacation and personal leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

**Long-Term Obligations**— In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds

CITY OF CASPIAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**IV. Assets, Liabilities, and Net Assets or Equity (Continued)**

using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity— In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications— Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**NOTE B-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information— Annual budgets are adopted on a cash basis. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. (i.e., The level at which expenditures may not legally exceed appropriations.)

Excess of Expenditures Over Appropriations in Budgeted Funds— During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

Budget Item	Budget Appropriation	Actual Expenditure
General - City Council	\$ 2,559	\$ 2,084
General - City Manager	20,000	25,876
General - Treasurer	12,000	13,342
General - Tax Administration	5,000	7,534
General - Clerk	7,900	10,440
General - Elections	1,500	1,511
General - Audit	7,000	7,340
General - Building and Grounds	22,000	56,428

**CITY OF CASPIAN**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2006

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**Excess of Expenditures Over Appropriations in Budgeted Funds (Continued)**

Budget Item	Budget Appropriation	Actual Expenditure
General - Police	\$ 55,159	\$ 61,356
General - Public Works	85,000	134,328
General - Street Lighting	12,000	14,148
General - Refuse	55,000	66,445
General - Community Promotion	77,000	105,177
General - Paid Time Off	13,936	23,717
General - Insurance	18,500	24,249
Major Streets - Street sweeping	100	3,465
Major Streets - Roadside Maintenance	0	681
Major Streets - Traffic Services	0	1,541
Major Streets - Winter Maintenance	42,377	47,081
Major Streets - Administration	4,615	6,083
Local Streets - Street Sweeping	900	2,526
Local Streets - Traffic Services	200	243
Local Streets - Winter Maintenance	9,320	16,430
Local Streets - Administration	1,000	4,033

**NOTE C—DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government of federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Council had designated three banks for the deposit of City funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 had authorized investment in bonds and securities of the United States government and its agencies and bank time deposit accounts but not the remainder of State statutory authority as listed above. The City's deposits and investment policy are in accordance with statutory authority.

**CITY OF CASPIAN**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2006

**NOTE C-DEPOSITS AND INVESTMENTS (CONTINUED)**

At year-end, the Local Unit's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government
Cash & Cash Equivalents	\$ 297,571	\$ 113,695	\$ 233	\$ 411,499
Restricted Assets	29,208	88,363	0	117,571
Total	<u>\$ 326,779</u>	<u>\$ 202,058</u>	<u>\$ 233</u>	<u>\$ 529,070</u>

All of the cash and equivalents have been placed in bank accounts at the various approved financial institutions. The bank balance is \$529,070 of which \$347,742 is covered by federal depository insurance.

**NOTE D - ACCUMULATED DEFICITS**

The City does not have accumulated deficits in its unreserved fund balance or retained earnings accounts in any of its funds.

**NOTE E - INTERFUND TRANSFERS, RECEIVABLES AND PAYABLE**

There were no interfund transfers during the year.

**NOTE F - INTERFUND RECEIVABLES AND PAYABLE**

The March 31, 2006, balances of interfund receivables and payables are as follows:

<u>Due From</u>	<u>Due to</u>	<u>Amount</u>
General	Tax Incremental Finance	\$ 19,989
General	Tax	336

**CITY OF CASPIAN**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2006

**NOTE G - CHANGES IN CAPITAL ASSETS**

Capital asset activity for the City for the year ended March 31, 2006 was as follows:

	Beginning	Additions	Disposals	Ending
<b>Governmental Funds</b>				
Assets not depreciated - Land	\$ 5,000	\$ 13,000	\$ 0	\$ 18,000
Assets depreciated				
Buildings	134,219	2,300	0	136,519
Equipment	<u>229,075</u>	<u>121,266</u>	<u>0</u>	<u>350,341</u>
Total at Historic Cost	\$ 368,294	\$ 136,566	\$ 0	\$ 504,860
Less Accumulated Depreciation for:				
Buildings	\$ 11,311	\$ 3,825	\$ 0	\$ 15,136
Equipment	<u>40,919</u>	<u>34,089</u>	<u>0</u>	<u>75,008</u>
Total Accumulated Depreciation	\$ 52,230	\$ 37,914	\$ 0	\$ 90,144
Net Governmental Funds - Capital Assets	<u>\$ 316,064</u>			<u>\$ 414,716</u>
<b>Business Type Funds</b>				
Assets depreciated				
Sewer utility system	\$ 0	\$ 147,470	\$ 0	\$ 147,470
Water utility system	<u>3,259,446</u>	<u>0</u>	<u>4,312</u>	<u>3,255,134</u>
Total at Historic Cost	\$3,259,446	\$ 147,470	\$ 4,312	\$3,402,604
Less Accumulated Depreciation for:				
Sewer utility system	\$ 0	\$ 1,844	\$ 0	\$ 1,844
Water utility system	<u>721,020</u>	<u>85,761</u>	<u>431</u>	<u>806,350</u>
Total Accumulated Depreciation	\$ 721,020	\$ 87,605	\$ 431	\$ 808,194
Net Business Type Funds - Capital Assets	<u>\$2,681,584</u>			<u>\$2,594,410</u>
Depreciation expense was charged to programs of the City as follows:				
<b>Governmental Activities</b>				
General Government		\$ 1,030		
Public Safety		16,446		
Public Works		15,390		
Parks and Recreation		<u>5,048</u>		
Total Governmental Activities		<u>\$ 37,914</u>		
<b>Business Type Activities</b>				
Water		\$ 1,844		
Sewer		<u>85,761</u>		
Total Business Type Activities		<u>\$ 87,605</u>		

**CITY OF CASPIAN**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2006

**NOTE H - CHANGES IN LONG TERM DEBT**

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Revenue bonds involve a pledge of specific income derived from the acquisition or constructed assets to pay the associated debt service.

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Type Activities</b>						
General Obligation Bonds						
1993 Fire Hall Bonds	5.75%	10-Apr-21	<u>\$ 105,678</u>	<u>\$ 4,207</u>	<u>\$ 101,471</u>	<u>\$ 4,459</u>
Total Governmental Type Activities			<u>\$ 105,678</u>	<u>\$ 4,207</u>	<u>\$ 101,471</u>	<u>\$ 4,459</u>
<b>Business Type Activities</b>						
Revenue Bonds						
1995 Water System Bonds	4.50%	01-Feb-35	<u>\$ 1,028,000</u>	<u>\$ 16,000</u>	<u>\$1,012,000</u>	<u>\$ 18,000</u>
Total Governmental Type Activities			<u>\$ 1,028,000</u>	<u>\$ 16,000</u>	<u>\$1,012,000</u>	<u>\$ 18,000</u>

Annual debt service requirements to maturity for the above obligations are as follows:

Year end June 30	<u>Government Type Activities</u>		<u>Business Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 4,459	\$ 5,798	\$ 18,000	\$ 45,540
2008	4,710	5,547	18,000	44,730
2009	5,008	5,249	20,000	43,920
2010	5,307	4,949	20,000	43,020
2011	5,625	4,632	22,000	42,120
2012-2016	33,579	17,705	122,000	195,120
2017-2021	42,784	6,361	148,000	165,330
2022-2026	0	0	172,000	129,870
2027-2031	0	0	220,000	87,525
2032-2035	<u>0</u>	<u>0</u>	<u>252,000</u>	<u>30,060</u>
Totals	<u>\$ 101,472</u>	<u>\$ 50,241</u>	<u>\$1,012,000</u>	<u>\$ 827,235</u>

CITY OF CASPIAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**NOTE I - PENSION PLAN**

The City contributes to the Michigan Municipal Retirement System (MERS), a multiple-employer public retirement system that acts as a common investment and administrative agent for municipalities in the State of Michigan.

All full-time City employees and officers are eligible to participate in the MERS. Benefits vest after ten years of service. Normal retirement provisions of the MERS apply to participants who retire at or after age 60 with at least 10 years of credited service.

The annual retirement benefits of covered employees vary depending on the valuation division. The annual retirement benefits are 2.25% of final average compensation for their last five years of employment multiplied by their years of credited service.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2005. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 8.40% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.0% annually for beneficiaries.

**GASB 25 INFORMATION (as of 12/31/05)**

**Actuarial Accrued Liability:**

Retiree and beneficiaries currently receiving benefits	\$ 253,524
Terminated employees not yet receiving benefits	26,602
Non-vested terminated employees	0
Current employees:	
Accumulated employee contributions including allocated investment income	0
Employer financed	<u>450,276</u>
Total Actuarial Liability	\$ 730,402
Net assets available for benefits, at actuarial value (Market Value is \$481,559)	<u>494,592</u>
Unfunded (overfunded) actuarial accrued liability	\$ 235,810

**GASB 27 INFORMATION (as of 12/31/05)**

Fiscal year beginning	July 1, 2007
Annual required contributions (ARC)	\$ 31,932
Amortization factor used	0.053632

CITY OF CASPIAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**NOTE I - PENSION PLAN (CONTINUED)**

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2005 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

**NOTE J - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.



REQUIRED  
SUPPLEMENTAL  
INFORMATION

CITY OF CASPIAN  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
Year ended June 30, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 400,038	\$ 400,038	\$ 400,038	\$ 0
Resources (Inflows)				
Property taxes	171,000	171,000	194,365	23,365
State shared revenues and grants	166,733	166,733	162,921	(3,812)
Fines and forfeitures	0	0	125	125
Charges for services	75,898	75,898	82,000	6,102
Interest and rentals	81,240	81,240	77,326	(3,914)
Sale of property	12,500	12,500	3,500	(9,000)
Reimbursements	0	0	1,371	1,371
Other	<u>4,000</u>	<u>4,000</u>	<u>9,570</u>	<u>5,570</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 911,409	\$ 911,409	\$ 931,216	\$ 19,807
Charges to Appropriations (Outflows)				
General Government				
City council	\$ 2,084	\$ 2,084	\$ 2,559	\$ (475)
City manager	20,000	20,000	25,876	(5,876)
Treasurer	12,000	12,000	13,342	(1,342)
Tax administration	5,000	5,000	7,534	(2,534)
Clerk	7,900	7,900	10,440	(2,540)
Elections	1,500	1,500	1,511	(11)
Counsel	10,728	10,728	6,135	4,593
Audit	7,000	7,000	7,340	(340)
Buildings and grounds	22,000	22,000	56,428	(34,428)
Cemetery	9,000	9,000	7,976	1,024
Public Safety				
Police	55,159	55,159	61,356	(6,197)
Fire	40,000	40,000	14,623	25,377
Public Works				
General	75,000	85,000	134,328	(49,328)
Street lighting	12,000	12,000	14,148	(2,148)
Refuse collection and disposal	55,000	55,000	66,445	(11,445)
Recreation				
Community promotion	17,000	77,000	105,177	(28,177)
Parks and other	13,106	13,106	10,199	2,907
Employee Benefits				
Paid time off	13,936	13,936	23,717	(9,781)
Retirement	29,500	29,500	23,306	6,194
Insurance and taxes	83,064	83,064	67,364	15,700
Insurance				
General	<u>18,500</u>	<u>18,500</u>	<u>24,249</u>	<u>(5,749)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>509,477</u>	\$ <u>579,477</u>	\$ <u>684,053</u>	\$ <u>(104,576)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>401,932</u>	\$ <u>331,932</u>	\$ <u>247,163</u>	\$ <u>(84,769)</u>

CITY OF CASPIAN  
BUDGETARY COMPARISON SCHEDULE  
MAJOR STREET FUND  
Year ended June 30, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 21,875	\$ 21,875	\$ 21,875	\$ 0
Resources (Inflows)				
State shared revenues and grants	79,635	79,635	79,734	99
Interest earned	<u>0</u>	<u>0</u>	<u>185</u>	<u>185</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 101,510	\$ 101,510	\$ 101,794	\$ 284
Charges to Appropriations (Outflows)				
Public Works				
Construction	\$ 40,000	\$ 5,000	\$ 0	\$ 5,000
Routine maintenance	31,500	31,500	17,269	14,231
Street sweeping	100	100	3,465	(3,365)
Roadside maintenance	0	0	681	(681)
Traffic services	0	0	1,541	(1,541)
Winter maintenance	7,377	42,377	47,081	(4,704)
Administration	4,615	4,615	6,083	(1,468)
Transfer to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>83,592</u>	\$ <u>83,592</u>	\$ <u>76,120</u>	\$ <u>7,472</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>17,918</u>	\$ <u>17,918</u>	\$ <u>25,674</u>	\$ <u>7,756</u>

CITY OF CASPIAN  
BUDGETARY COMPARISON SCHEDULE  
LOCAL STREET FUND  
Year ended June 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 15,462	\$ 15,462	\$ 15,462	\$ 0
Resources (Inflows)				
State shared revenues and grants	29,074	41,074	51,017	9,943
Interest earned	0	0	90	90
Transfer from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 44,536	\$ 56,536	\$ 66,569	\$ 10,033
Charges to Appropriations (Outflows)				
Public Works				
Construction	\$ 4,000	\$ 4,000	\$ 0	\$ 4,000
Routine maintenance	44,256	44,256	24,513	19,743
Street sweeping	900	900	2,526	(1,626)
Roadside maintenance	0	0	0	0
Traffic services	200	200	243	(43)
Winter maintenance	9,320	21,320	19,340	1,980
Administration	<u>1,000</u>	<u>1,000</u>	<u>4,033</u>	<u>(3,033)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>59,676</u>	\$ <u>71,676</u>	\$ <u>50,655</u>	\$ <u>21,021</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>(15,140)</u>	\$ <u>(15,140)</u>	\$ <u>15,914</u>	\$ <u>31,054</u>

CITY OF CASPIAN  
BUDGETARY COMPARISON SCHEDULE  
TAX INCREMENTING FINANCING FUND  
Year ended June 30, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 50,172	\$ 50,172	\$ 50,172	\$ 0
Resources (Inflows)				
Property taxes	32,759	32,759	63,772	31,013
Interest earned	<u>0</u>	<u>0</u>	<u>88</u>	<u>88</u>
AMOUNTS AVAILABLE FOR APPROPRIATION \$	82,931	\$ 82,931	\$ 114,032	\$ 31,101
Charges to Appropriations (Outflows)				
Public Works				
Capital outlay	\$ 25,908	\$ 3,000	\$ 2,300	\$ 700
Other improvements	0	12,600	12,278	322
Debt service	<u>0</u>	<u>10,308</u>	<u>10,257</u>	<u>51</u>
TOTAL CHARGES TO APPROPRIATIONS \$	<u>25,908</u>	<u>25,908</u>	<u>24,835</u>	<u>1,073</u>
BUDGETARY FUND BALANCE--ENDING \$	<u>57,023</u>	<u>57,023</u>	<u>89,197</u>	<u>32,174</u>

CITY OF CASPIAN  
MERS PENSION FUNDING AND STATISTICS  
JUNE 30, 2006

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>UNFUNDED AAL (UAAL)</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
31-Dec-03	435,291	646,360	211,069	67%	195,194	108%
31-Dec-04	464,711	680,115	215,404	68%	190,407	113%
31-Dec-05	494,592	730,402	235,810	68%	201,146	117%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
31-Dec-03	27,940	100%
31-Dec-04	28,632	100%
31-Dec-05	31,942	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 12.90%
*INCLUDES MERIT AND LONGEVITY INCREASES	0% - 8.40%
INFLATION	3% - 4%
COST OF LIVING ADJUSTMENTS	2.00%
OTHER	1994 GROUP MORTALITY TABLE

ADDITIONAL  
INFORMATION

CITY OF CASPIAN  
COMPARATIVE BALANCE SHEET  
WATER SUPPLY SYSTEM FUND  
June 30, 2006 and 2005

ASSETS	2006	2005
Current Assets:		
Cash	\$ 91,090	\$ 95,385
Accounts receivable	<u>20,169</u>	<u>17,525</u>
TOTAL CURRENT ASSETS	\$ 111,259	\$ 112,910
Restricted Assets - bond and interest redemption and bond reserve	\$ 88,363	\$ 80,825
Property and Equipment:		
Property and equipment	\$ 3,255,134	\$ 3,259,446
Less accumulated depreciation	<u>(806,350)</u>	<u>(721,020)</u>
NET PROPERTY AND EQUIPMENT	\$ 2,448,784	\$ 2,538,426
TOTAL ASSETS	<u>\$ 2,648,406</u>	<u>\$ 2,732,161</u>
LIABILITIES AND FUND EQUITY		
Current Liabilities:		
Account payable	\$ 3,285	\$ 8
Accrued payroll	466	357
Accrued interest	18,975	19,275
Current portion of long-term debt	<u>18,000</u>	<u>16,000</u>
TOTAL CURRENT LIABILITIES	\$ 40,726	\$ 35,640
Long-Term Debt:		
Revenue bonds	\$ 1,012,000	\$ 1,028,000
Less current portion included above	<u>(18,000)</u>	<u>(16,000)</u>
TOTAL LONG-TERM DEBT	\$ 994,000	\$ 1,012,000
TOTAL LIABILITIES	\$ 1,034,726	\$ 1,047,640
FUND EQUITY		
Contributed Capital:		
Federal (net of amortization)	\$ 1,454,874	\$ 1,517,449
Retained earnings:		
Reserved	\$ 88,363	\$ 80,825
Unreserved - undesignated	<u>70,443</u>	<u>86,247</u>
TOTAL RETAINED EARNINGS	\$ 158,806	\$ 167,072
TOTAL FUND EQUITY	\$ 1,613,680	\$ 1,684,521
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 2,648,406</u>	<u>\$ 2,732,161</u>



**CITY OF CASPIAN**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS**  
**WATER SUPPLY SYSTEM FUND**  
**Years ended June 30, 2006 and 2005**

	<u>2006</u> Actual	<u>2005</u> Actual	Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>			
Charges for services:			
Customer sales	\$ 149,032	\$ 148,860	\$ 172
Water taps and other services	2,228	2,009	219
State grants	<u>0</u>	<u>3,625</u>	<u>(3,625)</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 151,260</b>	<b>\$ 154,494</b>	<b>\$ (3,234)</b>
<b>OPERATING EXPENSES</b>			
Wages	\$ 28,758	\$ 20,630	\$ (8,128)
Employee benefits	23,499	17,308	(6,191)
Supplies	2,337	4,041	1,704
Purchased services	27,138	8,007	(19,131)
Equipment rental	1,977	888	(1,089)
Utilities	6,473	5,786	(687)
Other	2,745	777	(1,968)
Depreciation	<u>85,330</u>	<u>86,593</u>	<u>1,263</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ <u>178,257</u></b>	<b>\$ <u>144,030</u></b>	<b>\$ <u>(34,227)</u></b>
<b>OPERATING INCOME</b>	<b>\$ (26,997)</b>	<b>\$ 10,464</b>	<b>\$ (37,461)</b>
<b>NON-OPERATING REVENUE (EXPENSE)</b>			
Interest income	\$ 2,116	\$ 2,039	\$ 77
Interest expense	<u>(45,960)</u>	<u>(46,680)</u>	<u>720</u>
<b>TOTAL NON-OPERATING REVENUE (EXPENSE)</b>	<b>\$ <u>(43,844)</u></b>	<b>\$ <u>(44,641)</u></b>	<b>\$ <u>797</u></b>
<b>NET INCOME</b>	<b>\$ (70,841)</b>	<b>\$ (34,177)</b>	<b>\$ <u>(36,664)</u></b>
Add depreciation of fixed assets acquired by capital grants that reduces contributed capital from grants	62,575	62,575	
Retained Earnings - beginning	<u>167,072</u>	<u>138,674</u>	
<b>RETAINED EARNINGS - ENDING</b>	<b>\$ <u>158,806</u></b>	<b>\$ <u>167,072</u></b>	

CITY OF CASPIAN  
STATEMENT OF CASH FLOWS  
WATER SUPPLY SYSTEM FUND  
Years ended March 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 148,616	\$ 154,912
Operating grant	0	3,625
Payments to suppliers	(37,393)	(23,636)
Payments to or on behalf of employees	<u>(52,148)</u>	<u>(37,882)</u>
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 59,075</b>	<b>\$ 97,019</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on capital debt	\$ (16,000)	\$ (16,000)
Interest paid on revenue bonds	(46,260)	(46,980)
Purchases of capital assets	4,312	(4,311)
Funding of restricted accounts	<u>(7,538)</u>	<u>(7,127)</u>
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (65,486)</b>	<b>\$ (74,418)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES - Interest</b>	<b>\$ <u>2,116</u></b>	<b>\$ <u>2,039</u></b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ (4,295)</b>	<b>\$ 24,640</b>
Cash and equivalents - beginning	<u>95,385</u>	<u>70,745</u>
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ <u><u>91,090</u></u></b>	<b>\$ <u><u>95,385</u></u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (26,997)	\$ 10,464
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	85,330	86,593
Change in Assets and Liabilities		
Receivables - net	(2,644)	4,043
Accounts payable	3,277	(4,137)
Accrued payroll	<u>109</u>	<u>56</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u><u>59,075</u></u></b>	<b>\$ <u><u>97,019</u></u></b>

# SCOTT R. KENNEY

*Certified Public Accountant*

1374 Commercial Ave., Suite #1  
Crystal Falls, Michigan 49920  
(906) 875-4393 Fax: (906) 875-3879

INDEPENDENT AUDITOR'S REPORT ON  
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

The Honorable Mayor and Council  
City of Caspian  
Caspian, MI 49915

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Caspian, Michigan (City) as of and for the year ended June 30, 2006, which collectively comprise the City of Caspian, Michigan's basic financial statements and have issued my report thereon dated July 31, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

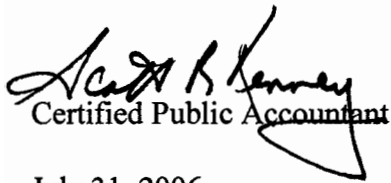
INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be

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detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to the management of the City in a separate letter dated July 31, 2006.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

  
Certified Public Accountant

July 31, 2006

# SCOTT R. KENNEY

*Certified Public Accountant*

1374 Commercial Ave., Suite #1  
Crystal Falls, Michigan 49920  
(906) 875-4393 Fax: (906) 875-3879

City Council  
City of Caspian  
301 East Caspian Avenue  
Caspian, MI 49915

In conjunction with the audit of the general purpose financial statements of the City of Caspian (City) as of and for the year ended June 30, 2006, I have reviewed the City's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the City's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the City Council and management and should not be presented or quoted to anyone outside of the City because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. The first comment is repeated from the prior year's letter of comments and recommendations.

1. **OBSERVATION** - During the 2003-2004 fiscal year, the City paid off its fire truck debt and approximately \$18,000 of the debt belonging to the fire department and fire authority. No payments have been made to the City on this obligation as of the audit date.

**RECOMMENDATION** - I recommend that a repayment schedule be agreed upon by the City and the fire department for the settlement of this obligation.

2. **OBSERVATION** - The City did not issue any 1099 forms to vendors in compliance with Internal Revenue Service regulations.

**RECOMMENDATION** - I recommend that the City obtain W-9 forms from its vendors and prepare 1099 forms as required by the IRS regulations.

3. **OBSERVATION** - The cash receipts for the year were improperly cutoff. This means that cash that was received by the City and properly receipted was not reflected on the financial records.

**RECOMMENDATION** - I recommend that the cash receipts issued by the Treasurer be recorded in the financial records according to the date reflected on the receipt.

4. **OBSERVATION** - The various cash accounts on the financial records are being adjusted but are not reconciled to the bank in all cases.

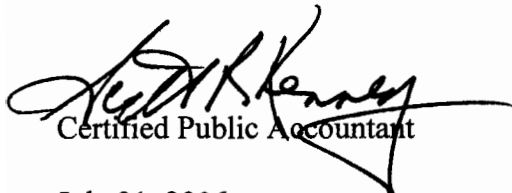
**RECOMMENDATION** - I recommend that all cash accounts be reconciled to the bank each month to assure timely and accurate financial reports.

5. **OBSERVATION** - Numerous items, both revenue and expenditures, were classified as miscellaneous in the financial records resulting in the misclassification of most of those items.

**RECOMMENDATION** - I recommend that items be entered into the accounts that are proper for the classification of each revenue or expenditure. This will assure that financial reports are properly stated.

I would like to thank the City for allowing me to conduct the audit of the financial statements and I would especially like to thank Rich and Sandy for their assistance during the audit.

If the City would like my assistance in implementing any of the above recommendations or would like to discuss any of these items further, I am willing to assist you in any way that I can.



Certified Public Accountant

July 31, 2006